



Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

Citadel Premium Income Fund

Series S-1 Income Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

CGF Resource 2006 Flow-Through Limited Partnership

Financial Preferred Securities Corporation

Citadel Diversified Investment Trust

Citadel Diversified Investment Trust

Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified") is a closed-end investment trust which became listed on the Toronto Stock Exchange on September 16, 1997. The Fund has a termination date of December 31, 2012 or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund's Declaration of Trust.

During 2006, Citadel Diversified paid total cash distributions of \$1.02 per unit based on monthly distributions of \$0.085 per unit compared to total cash distributions of \$1.04 per unit for 2005. In 2005, unitholders of record on December 31 received a special cash distribution of \$0.08 per unit in addition to the regular monthly distributions of \$0.08 per unit.

INVESTMENT HIGHLIGHTS:

	2006	2005	2004
Net Asset Value per Unit ⁽¹⁾	\$11.25	\$12.13	\$11.66
Market Price per Unit ⁽¹⁾	\$9.67	\$11.52	\$11.42
Trading Premium (Discount)	(14.0%)	(5.0%)	(2.1%)
Cash Distributions per Unit	\$1.02	\$1.04	\$1.04
Trailing Yield ⁽²⁾	10.5%	9.0%	9.1%
Market Capitalization (\$ millions)	\$302.2	\$320.7	\$328.0

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the last 12 months cash distributions declared expressed as a percentage of market price.

Management Report of Fund Performance

(March 20, 2007)

This annual report for the years ended December 31, 2006 and 2005 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Citadel Diversified Investment Trust (the "Fund" or "Citadel Diversified").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Citadel Diversified's investment objectives are to provide its unitholders with a high level of monthly distributions and to maximize the net asset value of the Fund over its life. In order to achieve these objectives, the Fund's investment manager actively manages a diversified portfolio of oil and gas royalty trusts, real estate investment trusts, income funds and qualified limited partnerships.

RISK

There are a number of risks associated with an investment in Citadel Diversified. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number

of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks.

On October 31, 2006 the Federal Minister of Finance (the "Finance Minister") announced a proposal (the "Trust Taxation Plan") to apply a tax at the trust/partnership level on distributions of certain income from publicly traded mutual fund trusts and partnerships at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts and partnerships would have a four-year transition period and generally would not be subject to the new rules until 2011. Until such rules are released in legislative form and passed into law it is uncertain what the impact of such rules will be to Canadian income funds (including publicly traded partnerships) and their investors. However, assuming the Trust Taxation Plan is ultimately enacted in the form proposed, those Canadian income fund issuers in which the Trust invests (other than real estate investment trusts that meet prescribed conditions under the new rules) will be subject to the Trust Taxation Plan commencing in 2011 and the implementation of such proposal would be expected to result in adverse tax consequences to such Canadian income funds and to adversely impact cash distributions from such Canadian income funds to the Trust. Based on the composition of the Trust's Portfolio, it is not expected that the Trust itself would be considered a "specified investment flow-through" under the Trust Taxation Plan, and therefore it is expected that the Trust itself will continue not to be directly liable for any material amount of income tax.

RESULTS OF OPERATIONS

With the closing of a rights offering on February 6, 2006, Citadel Diversified raised net proceeds of \$53.1 million on the issuance of 4,938,300 units at a price of \$10.90 per unit. The Fund's net assets grew from \$337.6 million at December 31, 2005 to \$351.4 million as at December 31, 2006 as a result of the rights offering proceeds, however the increase was primarily offset by the portfolio devaluations created by the Trust Taxation Plan. On a per unit basis, net asset value fell to \$11.25 per unit at December 31, 2006 from \$12.13 per unit at the end of 2005 as a result of portfolio valuations declining over the period and the dilutive effect of the February 2006 rights offering.

The Fund's market price also declined over 2006, closing at \$9.67 per unit on December 31, 2006 down from \$11.52 per unit at the end of 2005. Citadel Diversified's unit price decline plus monthly cash distributions produced a negative 6.8% total return for 2006, while the Fund generated a positive 3.0% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index decreased by 2.8% over the same period.

Total revenue increased to \$33.1 million in 2006 from \$29.1 million in 2005, an increase of 13.7% as additional assets were invested from proceeds of the February 2006 rights offering. Similarly, administrative and investment manager fees, payable in units of the Fund or cash at the option of the Administrator, also increased from \$5.4 million in 2005 to \$6.1 million in 2006 as net assets rose over the year. Total general and administration costs, including other expenses, remained consistent year over year at \$0.5 million. Net investment income improved to \$26.5 million for 2006 compared to \$23.2 million for 2005 due to the growth in total revenue derived from the larger asset base. On a per unit basis, net investment income was \$0.84 per unit for the year ended December 31, 2006 compared to \$0.82 per unit for the previous year.

The Fund realized significant gains on dispositions of Trinidad Energy Services Income Fund, CCS Income Trust, Superior Plus Income Fund, GMP Capital Trust and Oceanex Income Fund however these gains were offset by large losses realized on Spinrite Income Fund, Art In Motion Income Fund, Thunder Energy Trust and The Brick Group Income Fund resulting in net realized losses of \$1.1 million during 2006 compared to net realized gains of \$1.0 million in 2005. The Fund also experienced \$16.3 million of unrealized losses in 2006 (2005 - \$17.4 million unrealized gains) which contributed to the decline in total results of operations from \$41.6 million or \$1.48 per unit in 2005 to \$9.1 million or \$0.29 per unit in 2006.

During 2006, Citadel Diversified paid monthly distributions of \$0.085 per unit for a total of \$32.2 million or \$1.02 per unit compared to \$29.2 million or \$1.04 per unit in 2005. Effective January 1, 2006, the Fund increased its monthly distribution rate from \$0.08 per unit to \$0.085 per unit. At year end 2005, the Fund declared a special cash distribution of \$0.08 per unit in addition to its regular monthly distributions.

Over the first half of 2006, the Fund maintained a conservative cash position due to the unsettled market conditions within the income fund market. By year end, the majority of the cash raised from the February rights offering was invested across all sub-sectors leaving a cash balance of \$1.3 million at year end.

The Fund's portfolio mix has remained materially consistent despite some modest changes to the asset mix during the year. Overall, the Fund enhanced its exposure to real estate investment trusts while reducing its cash and oil & gas royalty trust positions.

TRADING PREMIUM (DISCOUNT) TO NET ASSET VALUE

During 2006, the Fund's market price traded at an average discount to its net asset value per unit of 11.2% compared to an average discount of 6.3% in 2005. With the widening discount, the Fund repurchased 1,530,100 units at an average cost of \$10.59 in 2006 under its mandatory repurchase program compared to 1,364,224 units at an average cost of \$11.33 per unit in 2005. Under the Fund's mandatory repurchase program, the Fund is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%, subject to 1.25% per quarter of the units outstanding.

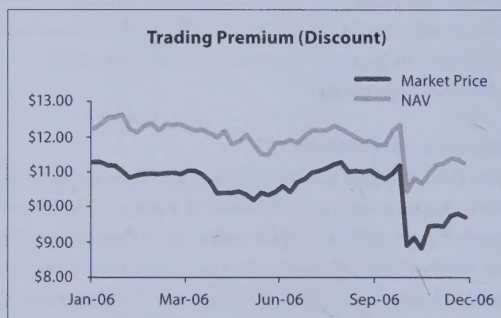
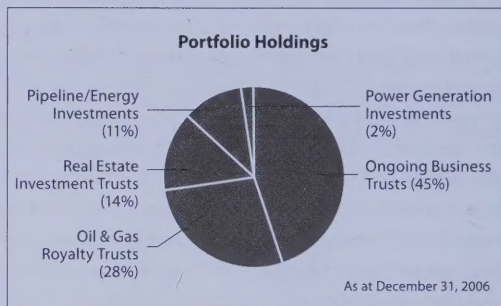
RECENT DEVELOPMENTS

On February 6, 2006, the Fund closed its fourth rights offering since its inception in 1997 which resulted in the issuance of 4,938,300 trust units for net proceeds of \$53.1 million. Each unitholder of record on January 9, 2006 received one right for each trust unit held. Four rights entitled the holder to purchase one trust unit for a price of \$10.90.

Throughout 2006, the trust sector experienced pronounced periods of volatility and sub-sector performance variance in addition to the valuation destruction created by the Government's Trust Taxation Plan. Despite the current unsettled market conditions, the Fund's investment manager feels all negative news has been priced into the trust sector and as a result is optimistic about the opportunities to generate strong returns for the Fund in 2007. Based upon the Fund's current portfolio and analysts' estimates of distributions, Citadel Diversified expects to maintain its monthly distribution rate of \$0.085 per unit for 2007.

Investment Fund Governance Legislation

During 2006, Canadian securities regulators passed legislation requiring independent oversight over the management of Canadian investment funds. National Instrument 81-107 Independent Review Committee for Investment Funds ("NI 81-107") came into effect on November 1, 2006. Under NI 81-107, an Independent Review Committee ("IRC") is required to be established by May 1, 2007. The main responsibility of the IRC is to govern over perceived conflicts of interest between investment funds, their managers and related third parties. Policies and procedures are to be adopted no later than November 1, 2007 and investment funds must be in full compliance of NI 81-107 at



that time. Citadel Diversified continues to research and develop its IRC and expects to meet each implementation date requirement.

New CICA Financial Instrument Standard

The Canadian Institute of Chartered Accountants has recently issued Section 3855, "Financial Instruments – Recognition and Measurement". Of importance to investment funds are new definitions and requirements for determining the fair value of financial instruments, particularly investments. Since current securities regulations require that investment funds calculate Net Asset Value ("NAV") in accordance with Generally Accepted Accounting Principles ("GAAP"), This new standard impacts the way in which net asset value is determined. For securities quoted on an open market, the new standard requires the use of bid prices for an asset held as opposed to the closing prices currently used. Bid prices are normally less than closing prices which will result in lower net asset values. Currently, transaction costs such as broker fees are added to the cost base of investments purchased and deducted from the proceeds of investments sold. The new standard requires that these costs be expensed. Although this does not affect the overall NAV, it will increase expenses and the management expense ratio. The new standard is effective January 1, 2007 for Citadel Diversified. Canadian securities regulators have been granted relief from the requirement to calculate NAV for purposes other than financial statements in accordance with this standard, allowing them and investment fund managers the opportunity to further study the issue. This relief is in effect until the earlier of September 30, 2007 and the date on which legislation with respect to calculating NAV for purposes other than financial statements is changed. Until that time, Citadel Diversified intends to calculate NAV under the old method, specifically using closing rather than bid prices, for all purposes other than financial statements.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel Diversified Management Ltd. is the administrator of Citadel Diversified, which is a member of the Citadel Group of Funds. CIFSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in either cash or units in advance and subject to annual adjustment. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance. This information is derived from the Fund's audited annual financial statements for each year in the 5 year period ended December 31, 2006.

Net Asset Value (NAV) per Unit

	2006	2005	2004	2003	2002
NAV, beginning of period	\$ 12.13	\$ 11.66	\$ 10.77	\$ 9.61	\$ 9.51
Increase (decrease) from operations:					
Total revenue	1.05	1.03	0.99	1.02	0.92
Total expenses	(0.21)	(0.21)	(0.19)	(0.18)	(0.19)
Realized gains (losses)	(0.04)	0.04	0.30	0.27	0.53
Unrealized gains (losses)	(0.51)	0.62	1.27	1.01	(0.04)
Total increase (decrease) from operations	0.29	1.48	2.37	2.12	1.22
Distributions:					
From net investment income	0.98	1.00	0.96	0.96	0.89
From capital gains	–	0.04	0.08	–	0.11
Return of capital	0.04	–	–	–	–
Total cash distributions	1.02	1.04	1.04	0.96	1.00
NAV, end of year	\$ 11.25	\$ 12.13	\$ 11.66	\$ 10.77	\$ 9.61

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2006	2005	2004	2003	2002
Net assets (\$ 000's)	\$ 351,384	\$ 337,572	\$ 334,986	\$ 251,767	\$ 223,498
Number of units outstanding	31,247,143	27,834,377	28,723,526	23,369,936	23,245,956
Management expense ratio	1.75%	1.78%	1.74%	1.87%	1.91%
Portfolio turnover ratio	24.68%	15.97%	27.20%	15.16%	40.52%
Trading expense ratio	0.11%	0.05%	0.11%	0.04%	0.12%
Closing market price	\$ 9.67	\$ 11.52	\$ 11.42	\$ 10.45	\$ 9.20

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value. The portfolio turnover rate indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

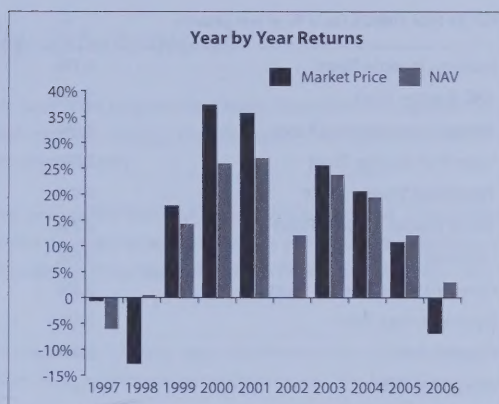
Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in either cash or units in advance and subject to annual adjustment. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Citadel Diversified's performance numbers represent the annual compound total returns over the period from inception in September 1997 to December 31, 2006 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net asset value plus the reinvestment of all distributions in additional units of the Fund. The Fund's initial public offering was on an instalment receipt basis, and as a result performance numbers for 1997 and 1998 assume that the \$4.00 per unit final instalment due September 1998 was actually paid at inception.



Returns do not take into account sales, redemptions or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for Citadel Diversified based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index for the periods indicated to December 31, 2006. Historical information for the Index is only available back to December 31, 1997.

	1 Year	3 Year	5 Year	Since Dec. 31, 1997	Since Inception
Citadel Diversified (market price)	(6.77%)	7.53%	9.32%	12.90%	12.35%
Citadel Diversified (net asset value)	3.00%	11.96%	14.24%	15.18%	14.18%
S&P/TSX Capped Income Trust Index	(2.85%)	17.30%	20.33%	16.39%	n/a

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2006

Net Assets: \$351,384,058

Portfolio by Sector	% of Net Assets
Ongoing Business Trusts	44.3%
Oil & Gas Royalty Trusts	27.9%
Real Estate Investment Trusts	13.9%
Pipeline / Energy Investments	10.5%
Power Generation Investments	1.7%
Cash and Term Deposits	0.4%
Other Assets, net of liabilities	1.3%
Total Net Assets	100.0%

TOP 25 HOLDINGS (as a % of net assets)

Halterm Income Fund	4.1%	Cineplex Galaxy Income Fund	2.2%
ARC Energy Trust	3.8%	Clearwater Seafoods Income Fund	2.1%
Yellow Pages Income Fund	3.0%	Focus Energy Trust	2.1%
Vermilion Energy Trust	3.0%	IPC U.S. Reit	2.1%
PennWest Energy Trust	2.9%	TransForce Income Fund	2.1%
Arctic Glacier Income Fund	2.7%	Energy Savings Income Fund	2.1%
H&R Reit	2.6%	Bonavista Energy Trust	2.1%
Crescent Point Energy Trust	2.5%	Gateway Casinos Income Fund	2.1%
Baytex Energy Trust	2.5%	Medical Facilities Corp.	2.0%
Dundee Reit	2.4%	SFK Pulp Fund	2.0%
Morguard Reit	2.2%	NAL Oil & Gas Trust	2.0%
Armtec Infrastructure Income Fund	2.3%	Great Lakes Carbon Income Fund	2.0%
AltaGas Income Trust	2.2%		

The summary of investment portfolio may change due to ongoing portfolio transactions. Quarterly updates are available at www.citadelfunds.com.

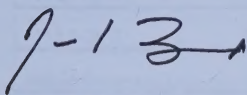
Management's Responsibility Statement

The financial statements of Citadel Diversified Investment Trust have been prepared by Citadel Diversified Management Ltd. ("CDML") and approved by the Board of Directors of CDML. CDML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

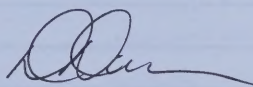
CDML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of CDML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of CDML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Citadel Diversified Management Ltd.



Darren K. Duncan
Chief Financial Officer
Citadel Diversified Management Ltd.

March 20, 2007

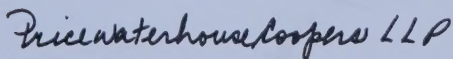
Auditors' Report to Unitholders

To the Unitholders of Citadel Diversified Investment Trust

We have audited the statements of net assets and investments of Citadel Diversified Investment Trust as at December 31, 2006 and 2005 and the statements of operations and changes in net assets for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2006 and 2005 and the results of its operations and the changes in its net assets for the years ended December 31, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.



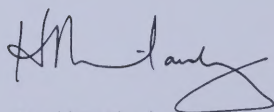
Chartered Accountants
Calgary, Alberta
March 20, 2007

Statement of Net Assets

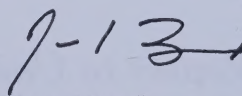
As at December 31	2006	2005
Assets		
Investments, at market	\$ 345,867,946	\$ 326,122,725
Cash and term deposits	1,279,877	9,247,172
Prepaid expenses	4,166,476	4,140,157
Revenue receivable	2,857,146	2,520,352
Accounts receivable	55,042	—
	354,226,487	342,030,406
Liabilities		
Accounts payable and accrued liabilities	—	5,268
Payable for investments purchased	186,422	—
Distributions payable	2,656,007	4,453,500
	2,842,429	4,458,768
Net Assets representing Unitholders' Equity	\$ 351,384,058	\$ 337,571,638
Units outstanding (note 3)	31,247,143	27,834,377
Net asset value per unit	\$ 11.25	\$ 12.13

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

For the years ended	2006	2005
Revenue		
Distribution income	\$ 31,440,839	\$ 28,107,046
Interest income	1,552,291	1,036,499
Securities lending income	88,353	—
	33,081,483	29,143,545
Expenses		
Administrative and investment manager fees (note 4)	6,055,032	5,422,659
General and administration costs	254,021	312,479
Reporting costs	70,636	55,585
Directors' fees	70,252	87,245
Custodial fees	34,856	30,847
Legal fees	32,798	24,365
Audit fees	21,735	24,833
Trustee fees	15,759	21,178
	6,555,089	5,979,191
Net investment income	26,526,394	23,164,354
Net realized gain (loss) on sale of investments (note 5)	(1,148,126)	1,041,163
Net change in unrealized gain (loss) on investments	(16,262,754)	17,371,644
Total results of operations	\$ 9,115,514	\$ 41,577,161
Results of operations per unit⁽¹⁾		
Net investment income	\$ 0.84	\$ 0.82
Net realized gain (loss) on sale of investments	(0.04)	0.04
Net change in unrealized gain (loss) on investments	(0.51)	0.62
	\$ 0.29	\$ 1.48

⁽¹⁾ Based on the weighted average number of units outstanding.
see accompanying notes

Statement of Changes in Net Assets

For the years ended	2006	2005
Net Assets – beginning of year	\$ 337,571,638	\$ 334,985,983
Operations:		
Net investment income	26,526,394	23,164,354
Net realized gain (loss) on sale of investments	(1,148,126)	1,041,163
Net change in unrealized gain (loss) on investments	(16,262,754)	17,371,644
	9,115,514	41,577,161
Unitholder Transactions: (note 3)		
Issuance of trust units, net	53,101,331	5,705,650
Repurchase of trust units	(16,204,174)	(15,458,104)
	36,897,157	(9,752,454)
Distributions to Unitholders: (note 6)		
From net investment income	(30,575,375)	(28,294,771)
From capital gains	–	(944,281)
Return of capital	(1,624,876)	–
	(32,200,251)	(29,239,052)
Net Assets – end of year	\$ 351,384,058	\$ 337,571,638
Distributions per unit	\$ 1.02	\$ 1.04

see accompanying notes

Statement of Investments

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
Aeroplan Income Fund	400,000	\$ 5,132,000	\$ 6,788,000		—	\$ —	\$ —	
Arctic Glacier Income Fund	770,000	8,543,600	9,640,400		625,000	7,031,250	6,750,000	
Armtech Infrastructure Income Fund	450,000	4,507,385	7,897,500		450,000	4,507,385	7,717,500	
Art in Motion Income Fund	—	—	—		528,000	5,280,000	1,531,200	
BFI Canada Income Fund	110,300	2,720,753	2,967,070		230,000	5,520,000	6,460,700	
The Brick Group Income Fund	—	—	—		650,000	6,559,800	6,051,500	
CML Healthcare Income Fund	470,000	5,041,690	6,556,500		470,000	5,041,690	6,768,000	
Chemtrade Logistics Income Fund	770,000	10,851,747	6,198,500		650,000	9,530,118	6,948,500	
Cineplex Galaxy Income Fund	575,000	7,848,000	7,791,250		300,000	4,238,500	4,380,000	
Clearwater Seafoods Income Fund	1,500,000	6,090,500	7,455,000		—	—	—	
Custom Direct Income Trust	675,000	6,285,773	5,049,000		442,600	4,451,928	4,359,610	
Davis + Henderson Income Fund	270,000	3,330,767	4,174,200		220,000	2,301,667	5,101,800	
E. D. Smith Income Fund	—	—	—		165,800	1,658,000	1,658,000	
Entertainment One Income Fund	1,000,000	1,920,500	2,000,000		—	—	—	
GMP Capital Trust	—	—	—		301,100	5,283,673	5,395,712	
Gateway Casinos Income Fund	425,000	4,699,000	7,267,500		325,000	3,211,000	5,187,000	
GolfTown Income Fund	—	—	—		144,000	1,336,176	1,483,200	
Great Lakes Carbon Income Fund	613,000	6,368,977	6,926,900		490,000	5,157,550	4,949,000	
Halterm Income Fund	759,800	4,841,613	14,367,818		759,800	4,841,613	6,230,360	
KCP Income Fund	440,000	4,130,908	3,273,600		750,200	7,054,933	6,901,840	
Livingston International Income Fund	265,000	2,848,506	5,517,300		265,000	2,848,506	5,962,500	
Medical Facilities Corporation	800,000	8,785,243	7,200,000		615,000	6,688,596	7,041,750	
New Flyer Industries Inc.	750,000	7,406,775	6,885,000		600,000	6,000,000	5,640,000	
Oceanex Income Fund	—	—	—		236,500	2,244,148	3,311,000	
Prizm Income Fund	503,100	5,044,814	5,901,363		400,000	4,034,440	3,800,000	
Rogers Sugar Income Fund	550,000	3,304,095	2,024,000		550,000	3,304,095	2,035,000	
SFK Pulp Fund	1,700,500	6,048,816	7,023,065		1,835,500	6,529,022	8,259,750	
Spinrite Income Fund	—	—	—		700,000	6,009,217	4,368,000	
SunGro Horticulture Income Fund	—	—	—		600,000	4,551,000	4,050,000	
Teranet Income Fund	546,200	5,580,436	4,855,718		—	—	—	
TransForce Income Fund	548,770	5,199,371	7,402,907		557,194	5,246,492	9,505,730	
Yellow Pages Income Fund	825,000	10,876,708	10,617,750		400,000	4,522,748	6,520,000	
		137,407,977	155,780,341	44.9%		134,983,547	148,367,652	44.2%
Oil & Gas Royalty Trusts								
ARC Energy Trust	600,000	5,524,221	13,380,000		600,000	5,524,221	15,894,000	
Acclaim Energy Trust	—	—	—		519,400	5,558,788	9,842,630	
Baytex Energy Trust	400,000	4,876,000	8,912,000		400,000	4,876,000	7,080,000	
Bonavista Energy Trust	260,000	7,616,600	7,319,000		—	—	—	
Canetic Resources Trust	389,516	4,804,417	6,403,643		—	—	—	
Chamaelo Exploration Ltd.	—	—	—		208,000	1,578,978	1,591,200	
Crescent Point Energy Trust	510,000	8,270,770	8,976,000		350,000	5,093,100	7,238,000	
Enerplus Resources Fund	100,000	2,280,163	5,068,000		100,000	2,280,163	5,586,000	
Focus Energy Trust	410,000	7,481,952	7,453,800		—	—	—	
Harvest Energy Trust	250,549	6,261,643	6,571,900		50,549	946,700	1,879,917	
NAL Oil & Gas Trust	568,000	5,914,481	6,992,080		518,000	5,243,051	9,365,440	
Paramount Energy Trust	520,000	6,233,450	6,448,000		520,000	6,233,450	11,528,400	
PennWest Energy Trust	282,300	7,621,486	10,041,411		—	—	—	
PetroFund Energy Trust	—	—	—		309,400	3,430,000	6,339,606	
Thunder Energy Trust	—	—	—		534,000	6,424,020	6,408,000	
Vault Energy Trust	—	—	—		520,000	5,181,022	5,928,000	
Vermilion Energy Trust	300,000	5,123,100	10,500,000		250,000	3,525,000	7,435,000	
Viking Energy Royalty Trust	—	—	—		800,000	5,314,943	7,360,000	
		72,008,283	98,065,834	28.2%		61,209,436	103,476,193	30.8%

(continued on following page)

	December 31, 2006				December 31, 2005			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
<i>(continued from previous page)</i>								
Pipeline / Energy Investments								
AltaGas Income Trust	300,000	6,383,852	7,860,000		243,500	4,850,894	6,805,825	
CCS Income Trust	150,000	1,218,981	5,662,500		286,800	2,330,693	10,611,600	
Energy Savings Income Fund	550,000	1,405,275	7,397,500		550,000	1,405,275	10,444,500	
Fort Chicago Energy Partners L.P.	475,000	5,556,970	5,448,250		-	-	-	
Inter Pipeline Fund	610,000	5,109,231	5,514,400		-	-	-	
Keyera Facilities Income Fund	100,000	1,663,200	1,664,000		-	-	-	
Superior Plus Income Fund	-	-	-		210,000	3,317,060	4,935,000	
Trinidad Energy Services Income Trust	245,000	1,911,000	3,381,000		575,000	4,485,000	9,096,500	
		23,248,509	36,927,650	10.6%		16,388,922	41,893,425	12.5%
Real Estate Investment Trusts								
Dundee Reit	220,000	6,401,097	8,503,000		-	-	-	
Extendicare Reit	350,000	5,233,174	5,085,500		-	-	-	
H&R Reit	375,000	6,339,288	9,033,750		175,000	2,071,134	3,640,000	
Huntingdon Reit	1,800,000	4,950,000	4,140,000		1,800,000	4,950,000	4,950,000	
IPC U.S. Reit	600,000	6,271,105	7,440,000		600,000	6,271,105	6,816,000	
Morguard Reit	583,705	5,516,373	8,020,107		583,705	5,516,373	6,420,755	
Primaris Retail Reit	355,000	4,899,309	6,702,400		355,000	4,899,309	5,800,700	
TGS North American Reit	-	-	-		600,000	5,487,597	4,758,000	
		39,610,346	48,924,757	14.1%		29,195,518	32,385,455	9.7%
Power Generation Investments								
Atlantic Power Corporation	530,000	5,323,858	5,983,700		-	-	-	
		5,323,858	5,983,700	1.7%	-	-	-	
Citadel Diversified units - repurchased for cancellation	19,200	186,422	185,664	0.1%	-	-	-	
Investments		277,785,395	345,867,946	99.6%		241,777,423	326,122,725	97.2%
Cash and Term Deposits		1,279,877	1,279,877	0.4%		9,247,172	9,247,172	2.8%
Total		\$ 279,065,272	\$ 347,147,823	100.0%		\$ 251,024,595	\$ 335,369,897	100.0%

All portfolio holdings are trust units, except the following: Medical Facilities Corporation and Atlantic Power Corporation – income participating securities; New Flyer Industries Inc. – income deposit security; Chamaelo Exploration Ltd. – common shares and Fort Chicago Partners L.P. – limited partnership units.

Notes to the Financial Statements

December 31, 2006 and 2005

1. STRUCTURE OF THE FUND

Citadel Diversified Investment Trust (the “Fund” or “Citadel Diversified”) is a closed-end investment trust established under the laws of Ontario pursuant to a Declaration of Trust dated as of July 11, 1997. The Fund commenced operations upon completion of its initial public offering on September 16, 1997. The term of the Fund continues until December 31, 2012 in accordance with the provisions of the Fund’s Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2006 and 2005, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund's financial instruments which are comprised of cash and term deposits, prepaid expenses, accounts receivable, revenue receivable, accounts payable and accrued liabilities, payable for investments purchased and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	December 31, 2006		December 31, 2005	
	Number	Amount	Number	Amount
Trust units – beginning of year	27,834,377	\$ 254,397,223	28,723,526	\$ 264,149,676
Issued for cash:				
Exercise of rights, net	4,938,300	53,051,331	–	–
Issued for services (note 4)	4,566	50,000	475,075	5,705,651
Repurchase of trust units	(1,530,100)	(16,204,174)	(1,364,224)	(15,458,104)
Trust units – end of year	31,247,143	\$ 291,294,380	27,834,377	\$ 254,397,223

The weighted average number of units outstanding for the year ended December 31, 2006 was 31,612,449 units (2005 – 28,225,018 units).

The Fund completed a rights offering on February 6, 2006 with the issuance of 4,938,300 units for net proceeds of \$53.1 million. Each unitholder of record on January 9, 2006 received one right for each trust unit held. Four rights entitled the holder to purchase one trust unit for a price of \$10.90.

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation. This program is subject to a maximum in each calendar quarter of 1.25% of the total number of units outstanding at the beginning of such quarter. For the year ended December 31, 2006, 1,530,100 trust units were repurchased for cancellation under the program at an average cost of \$10.59 per unit (2005 – 1,364,224 units at an average cost of \$11.33 per unit).

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES

Citadel Diversified Management Ltd. ("CDML") is the administrator of the Fund. Pursuant to the administrative services agreement, total annual administrative and investment management fees are based upon 1.5% of the aggregate average weekly net asset value of the Fund, payable in cash or units in advance and subject to annual adjustment. In 2006, CDML elected to receive cash fees of \$5,834,582 in respect of twelve months of services ending September 16, 2007. In 2005, 469,871 units were issued to CDML in respect of twelve months of services ending September 16, 2006. For the year ended December 31, 2006, the Fund recorded an expense of \$6,055,032 (2005 – \$5,422,659) in respect of administrative and investment management fees units earned during the year. The amounts issued to CDML in 2005 are included in units issued for services as shown in note 3. The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during

the performance of its duties. As at December 31, 2006, included in accounts receivable were amounts owed from CDML of \$55,042 (2005 – \$5,268 in accounts payable).

Directors of CDML received a total of 4,566 units in September 2006 (5,204 units in September 2005) as part of their annual retainers.

5. INVESTMENTS

The net realized gain (loss) on the sale of investments was determined as follows:

For the years ended December 31	2006	2005
Net proceeds from the sale of securities	\$ 91,770,880	\$ 53,448,381
Less cost of securities sold:		
Investments at cost – beginning of year	241,777,423	218,560,114
Investments purchased during year	128,926,978	75,624,527
Investments at cost – end of year	(277,785,395)	(241,777,423)
Cost of investments disposed of during year	92,919,006	52,407,218
Net realized gain (loss) on sale of investments	\$ (1,148,126)	\$ 1,041,163

6. CASH DISTRIBUTIONS

The Fund distributes monthly cash distributions equal to the cash distributions received by the Fund less estimated expenses. For the year ended December 31, 2006 and 2005, the Fund also distributed a portion of its realized capital gains and/or a return of capital in order to supplement distributions.

For the years ended December 31	2006	2005
Net investment income for the year	\$ 26,526,394	\$ 23,164,354
Add fees paid by issuance of units	4,048,981	5,130,417
Capital distributed	1,624,876	944,280
Cash distributions	\$ 32,200,251	\$ 29,239,052
Cash distributions per unit	\$ 1.02	\$ 1.04

7. LOAN PAYABLE

The Fund maintains a revolving credit facility with a Canadian chartered bank for up to a maximum amount of \$15,000,000 of which no amount was drawn as at December 31, 2006 and 2005. Borrowings are collateralized by a demand debenture in the amount of \$55,000,000 which provides a first floating charge over the Fund's assets. The credit facility bears interest at the bank's prime lending rate or at rates slightly below prime if incurred by way of bankers' acceptances. The credit facility is a revolving facility that will revolve until June 30, 2007 and for a further 364 days at the option of the bank.

8. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$403,265 for the year ended December 31, 2006 (2005 – \$176,148) and they are recorded in the purchase and sale of investments.

9. SECURITIES LENDING

The Fund engaged in securities lending during 2006 and as at December 31, 2006, the Fund had lent out \$79.5 million of its portfolio securities with \$85.6 million of collateral in primarily federal and provincial bonds.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
Citadel Series Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
CGF Funds Management Ltd.
CGF Resource FT Funds Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un,
SRC.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un, SPU.un and CGF Resource 2006)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Investment Manager

(CPF.un)
Fiera YMG Capital Inc.
1501 McGill College Avenue, Suite 900
Montreal, Quebec H3A 3M8

Rebalancing Advisor

(IEP.un, EQW.un and FPR.pr.a)
Shaunessy Investment Counsel Inc.
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Micheline Bouchard - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

Stikeman Elliott LLP
4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
Citadel Premium Income Fund units: **CPF.un**
Series S-1 Income Fund units: **SRC.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**
Financial Preferred Securities Corporation shares: **FPR.pr.a**
CGF Resource 2006 Flow-Through Limited Partnership units: not listed



Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Tel: (877) 261-9674 Fax: (403) 261-8670
Website: www.citadelfunds.com